



**Board Meeting  
September 11, 2015**

**PRESENT:** John Rodgers, Chairperson; Beryl L. Feinberg, Councilmember; Barbara Matthews, City Manager; Stan Seemann, Citizen Representative; Anita McCombs, AAME Representative; Sgt. Chris Peck, FOP Representative; and Derrick Pierson, Union Representative. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Daisy Harley and Karen Marshall, Human Resources; Tim Peifer, Finance Department; as well as Ryen Sherman, Segal Rogerscasey, Inc.

The meeting commenced at 9:00 a.m. with introductions.

**I. Approval of minutes May 29, 2015:**

Ms. Matthews made a motion to approve the minutes subject to the list of clerical changes that she provided to Mr. Cohen. Councilmember Feinberg seconded it. All were in favor.

Mr. Cohen presented a BlackRock status. He said he is still negotiating with BlackRock. He is trying to get them to agree to a "Me Too or Favorable Nation Clause" in the contract. This means if more favorable pricing is given to future clients, then we would get that pricing as well. The pricing and costs that we are receiving now are reasonable. BlackRock will not agree to the "Me Too" clause, probably because we are too small. Mr. Cohen asked the Board if they still want to proceed with BlackRock. After much discussion, it was stated that the decision to go with BlackRock was already made based on the quoted price and that we should proceed with implementation.

**II. Follow Up Hybrid Benefits Calculation:**

Mr. Rodgers asked Mr. Cohen how common was this situation; transferring to a police position from other Rockville City employment? Mr. Cohen said there have been employees going from Union to Administrative, but this is not very common at all. In this instance, it is an employee going from Union to Police. The employee did not want to lose benefit credit for any served time. His 25 years for the Police Plan starts with his date of hire with Police. In the Police Plan, there is a specific clause that covers this. His time served as a Union employee does vest him in the Thrift Plan and his total benefits are based on time and benefits under Union and Police.

Mr. Rodgers thanked Mr. Cohen for handling this.

**III. Investment Performance Review Quarter End June 30, 2015:**

Mr. Sherman distributed an update through August. He started his presentation with the Pension Fund. The Pension Fund returned 2.9% for the year and over 11% for the 5 year period through June 30, 2015. The returns over the last 5 years amounted to about \$35 million in investment and income gains. The asset allocation is in line with the guidelines, but slightly overweights equity and GTAA. The assets will be rebalanced with receipt of the City's annual contribution. The managers are performing in line with expectations.

Mr. Sherman discussed the recent market volatility and noted the new investment with Invesco and the real estate allocation helped protect the fund during the decline in August.



At the last meeting, the Board approved moving half the fixed income assets to a Barclays Aggregated Bond Index Fund on Principal's platform to satisfy the benefit index requirement and to move the other half to the BlackRock unconstrained fixed income portfolio. Segal Rogerscasey will help coordinate the transfer once the new accounts are set up. The changes will reduce the investment established to comply with the benefit index requirement, but the amount will remain above the \$25 million minimum that is stipulated in the investment guidelines.

Mr. Sherman presented the Thrift Plan Performance report. The total assets ended the 3<sup>rd</sup> quarter at \$26.8 million. The Principal Preservation Fund is the most utilized investment option and accounts for 22.6% of assets, which is slightly lower from last quarter. The utilization rate of Goal Maker increased to 43.1% and comprised 34% of total assets.

All the investment options are performing in line with expectations, except for the T Rowe Price equity income strategy. This fund has been on the watch list and has not shown improvement. The Board asked Segal Rogerscasey to present alternative options at the next meeting.

Mr. Sherman presented the Retiree Benefit Trust Plan report. The fund returned -0.3% for the year, but had a 10.5% return over the 5 year period, beating the benchmark. Manning & Napier has maintained an overweight to equity, which has proved beneficial over the past few years, but has detracted from performance this year. They underperformed over the last year due to their overweight of international stocks and the energy sector. They were also short duration on the bond side. The fund has returned 10.7% since inception, ahead of the benchmark.

Mr. Sherman noted that Segal Rogerscasey recently conducted an onsite visit with Manning & Napier and were comfortable with the team/organization changes, but will continue to monitor the firm.

Mr. Sherman suggested looking into further diversifying the allocation and managers as the assets of the Retiree Benefit Trust continue to grow.

#### IV. Prudential Performance:

As a follow-up to the last meeting on May 29, 2015, Mr. Sherman and Mr. Cohen reached out to ICMA-RC to obtain pricing scenarios for changing record keepers. Mr. Sherman discussed how the pricing is driven by the investment line up and particularly the stable value fund. Each scenario would reduce the administrative expenses, but the total fees would go up if the assets were mapped to the 457 investment line up.

The Board discussed the operational issues and the personnel turnover, on average a new person per year, experienced with Prudential on both the Thrift and Pension Funds.

Some of the key issues staff has with Prudential on the Defined Benefit side are their lack of flexibility. Specifically, they don't allow customization on the employee statements, including adding an employee's date of birth. In addition, they don't allow employees to change their beneficiaries online. The RFP should address these issues as well as focus on technology and educational capabilities.

For the Defined Contribution search, the Board would like the firms to provide pricing on both the Thrift Plan and consolidating record keepers with the 457 Plan. They also would like to include firms that provide a similar service as Goal Maker, where participants can select an



allocation based on their risk tolerance and age that gets more conservative over time utilizing the underlying core investment options.

Based on the Board's discussion and all of the problems with Prudential that has been articulated by staff, Ms. Matthews made a motion to do 2 separate RFP's for administrative record keeping services, one for the Defined Benefit Plan and one for the Thrift Plan to include an educational component and a Goal Maker like product and to possibly include an alternate 457 Plan. Councilmember Feinberg seconded it. All were in favor.

V. Future Agendas:

- Progress of RFP process
- FY 2017 Actuarial Valuation Report
- FY 2017 GASB45 Retiree Health Valuation Report
- Calendar of 2016 Meeting Schedule
- Education Plan for Calendar 2016 (Prudential Representative to attend and present plan)
- Quarterly Performance Review

**THE NEXT MEETING IS NOVEMBER 13, 2015**